www.private-banking-dot.com/bank-rating.html

Tier 1 Capital Ratio and Bank Ratings

The Tier 1 capital and Tier 1 capital ratio are official indicators of the financial strength of a (private) bank. They are among the best indicators of how safe, stable and secure a (private) bank is.

What does the Tier 1 Capital Ratio stand for?

The Tier 1 capital indicates the actual capital of a bank and the Tier one capital ratio is the ratio between the actual capital of a bank vs. the financial risks it is running, e.g., loans and market risks (also called risk-weighted assets). All regulations with respect to the Tier 1 capital ratio of banks are based on the guidelines of the Basel Committee on Banking Supervision (BCBS), a committee of (international) banking supervisory authorities. The BCBS is part of the Bank of International Settlements (BIS).

Based on a set of rules and a mathematical formula, a ratio (percentage) is calculated indicating the financial stability of the (private) bank. The higher the ratio, the more financially stable a bank is. Referring to the location of the BCBS, the applied rules are also known as Basel II and Basel III. For rating agencies, such as Moody's and Standard & Poor's, the Tier 1 capital ratio is highly relevant for establishing the credit rating of a bank.

Regulatory financial requirements for banks

Before the financial crisis started in 2008 most (international) banks had a very low Tier 1 capital ratio, sometimes even lower than 4% (although based on quite a complex calculation, you may interpret this as for every 100 dollars a bank is lending, there are (only) 4 dollars of capital kept as collateral in the bank). Due to the strong negative effects of the financial crisis, worldwide regulators are now demanding a 9% Tier 1 capital ratio of all banks.

The Swiss government has decided that the capital standards of the banks relevant for the Swiss financial system should go way beyond this level, in order to ensure that the Swiss financial centre will never be negatively affected by a (new) financial crisis.

Highest Tier 1 capital ratio

A small group of the most solid and financially stable Swiss private banks have a Tier one capital ratio of over 20% to 25%. Most of those banks are so-called pure players, only offering private banking services and not, for example, investment banking services. With this extremely high Tier 1 capital ratio they form a very small and exclusive club of best, most safe and stable private banks in the world. But since not all of these banks are publicly traded, information related to their Tier 1 capital ratio is not always easily accessible to the public.

As banks without sufficient capital will run a higher risk of default, it is essential for a serious investor to select a Swiss private bank with a very high Tier 1 capital ratio, in order to protect his investable assets. In case a bank is not well capitalized the chance of default is much higher.

We look forward to assisting you in finding a well-capitalized bank in Switzerland.